

Message Text

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ACTION SS-25

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EXDIS

E.O. 11652: GDS
TAGS: MASS EFIN EAID PE GW
SUBJ: THE NAVY AND PERU'S FINANCIAL CRISIS

REF: STATE 92362

SUMMARY: ADMIRAL PARODI, ALTHOUGH DEEPLY RESENTFUL OF OUR INTERVENTION IN THIS MATTER, IS PREPARED TO DEFER DELIVERY OF TWO OF THE WEST GERMAN SUBMARINES IF ARRANGEMENTS CAN BE WORKED OUT WITH THE BUILDERS. TO GO FURTHER -- CANCELLATION -- WILL REQUIRE THE CONCURRENCE OF THE OTHER ADMIRALS. PARODI WILL PRESENT THE OPTIONS TO THEM AND LET ME KNOW. HE HAS ALREADY DELAYED DELIVERY OF THE TWO FRIGATES FROM ITALY AND STOPPED WORK ON THE TWO UNDER CONSTRUCTION HERE. WE HAVE EXERTED HEAVY PRESSURE ON THIS ISSUE AND CAN PROBABLY EXPECT SOME RESULTS -- BUT AT WHAT MAY BE A FUTURE COST. END SUMMARY.

1. I SPENT AN HOUR ALONE WITH ADMIRAL PARODI IN HIS OFFICE ON APRIL 27 REVIEWING THIS SUBJECT IN DEPTH. IT WAS A PAINFUL INTERVIEW FOR BOTH OF US. PARODI SEES THE NAVY AS THE FIRMEST FRIEND THE US HAS IN PERU, A STAUNCH ALLY ON WHOM THE USG HAS NOW TURNED FOR REASONS HE FAILS FULLY TO COMPREHEND. AT ONE POINT HE SAID RATHER BITTERLY, "WHY DON'T YOU ASK THOSE OTHERS TO SEND BACK
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SOME OF THEIR PLANES AND TANKS?".

2. I EXPLAINED TO PARODI THAT IT IS NOT HOSTILITY TOWARD THE PERUVIAN NAVY BUT DEEP CONCERN FOR PERU'S FINANCIAL SITUATION THAT MOTIVATES US. PAYMENTS FOR THE WEST GERMAN SUBMARINES WOULD FALL DUE IN THE SAME PERIOD TO WHICH THE GOP NOW SEEKS TO POSTPONE A LARGE

PART OF ITS 1978-79 DEBT SERVICE. ANY RESCHEDULING CONFERENCE WILL SURELY FOCUS ON MILITARY DEBT AND PARTICULARLY ON THAT WHICH CAN STILL BE REDUCED BY CUTTING BACK ORDERS. I SAID I COULD TELL HIM FROM MY EXPERIENCE THAT RESCHEDULING IS AN UNPLEASANT EXPERIENCE FOR THE DEBTOR GOVERNMENT IN THE BEST OF CIRCUMSTANCES. I EMPHASIZED THAT THE USG IS TRYING TO HELP PERU AS BEST WE CAN, POINTING TO THE SIGNING APRIL 26 OF THE PL-480 TITLE I AGREEMENT. I URGED RECONSIDERATION OF THE SUBMARINE PURCHASE.

3. PARODI ASSERTED THAT NO ONE IS MORE CONSCIOUS OF THE NEED FOR AUSTERITY THAN HE. HE HAS CUT NAVY OPERATING EXPENSES TO THE BONE -- AND, PURPORTEDLY, REDUCED HIS OFFICERS' FREE GASOLINE RATION BY ONE-THIRD WITH A FURTHER REDUCTION COMING SOON. IN ITALY HE MANAGED TO POSTPONE PAYMENTS NOW DUE (APPARENTLY PRINCIPAL ONLY) AND TO DEFER DELIVERY OF THE TWO FRIGATES. THE FIRST WAS DUE TO ARRIVE HERE LAST OCTOBER BUT NOW WILL NOT COME UNTIL THE END OF THE YEAR. DELIVERY OF THE SECOND HAS BEEN PUT OFF UNTIL SOMETIME IN 1979. THE TWO UNDER CONSTRUCTION IN CALLAO HAVE BEEN "DEFERRED" INDEFINITELY. (COMMENT: THE DATT CONFIRMS THAT WORK ON THEM SEEMS TO HAVE STOPPED.)

4. AS FOR THE SUBMARINES, PARODI SAID HE WOULD BE WILL-
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ING TO DEFER TWO OF THEM FOR A TIME IF HE COULD WORK OUT ARRANGEMENTS WITH THE WEST GERMAN SHIPBUILDERS. TO DO MORE THAN THAT, TO CANCEL THE SECOND PAIR, WOULD REQUIRE THE CONCURRENCE OF THE COUNCIL OF ADMIRALS. PARODI NOTED THAT IF HE TRIED TO ACT ON HIS OWN, HE WOULD "BE OUT TOMORROW". EITHER COURSE -- DEFERRAL OR CANCELLATION -- WOULD REQUIRE NEGOTIATIONS WITH THE WEST GERMANS INASMUCH AS THE CONTRACTS IMPOSE HEAVY PENALTIES FOR FAILURE TO CARRY OUT THE TERMS. HE CONCEDED THAT PERHAPS TWO OF THEM COULD BE SOLD; "THE CHILEANS WOULD BE INTERESTED". PARODI CONCLUDED THAT HE WOULD HAVE TO CONVOKE A MEETING OF THE ADMIRALS TO EXAMINE THE OPTIONS. I SAID I WAS NOT TRYING TO MAKE THE NAVY'S OR THE GOP'S DECISIONS BUT TO BE SURE THE PROBLEM IS UNDERSTOOD. PARODI ASSURED ME THAT IT IS AND PROMISED TO LET ME KNOW HOW THE NAVY'S DELIBERATIONS COME OUT.

5. COMMENT: PRIOR TO MY MEETING WITH PARODI, OUR ATTACHES DISCUSSED THE PROBLEM OF MILITARY EXPENDITURES AND THE NEED TO CUT BACK ON THE SUBMARINE PURCHASE WITH THE FOLLOWING PERUVIAN OFFICERS: DIVISION GENERAL

ERNESTO LEYVA, SECRETARY GENERAL OF NATIONAL DEFENSE;
REAR ADMIRAL DANIEL MASIAS, CHIEF OF STAFF OF THE NAVY
SQUADRON; MAJOR GENERAL EDUARDO RIVAS PLATA, ADJUTANT
GENERAL OF THE AIR FORCE; REAR ADMIRAL JORGE DEL AGUILA,
VICE CHIEF OF STAFF OF THE NAVY; AND COLONEL VICTOR
OJEDA, DIRECTOR, PLANS AND DEVELOPMENT, ARMY
GENERAL STAFF. WE HAVE NOW TURNED THE HEAT UP ABOUT
AS HIGH AS IT WILL GO. I WILL FINISH UP WITH MORALES
BERMUDEZ ON DELIVERING PRESIDENT CARTER'S LETTER.

6. THIS HEAVY PRESSURE WILL PROBABLY IN THE END HAVE
SOME RESULT. BUT I THINK IT LIKELY THAT THE PERUVIANS
WOULD HAVE CUT THE ORDER BACK ON THEIR OWN AS THEY GOT
INTO RENEGOTIATING THEIR DEBT. AS IT IS, THEY WILL
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SURELY BE LOOKING FOR OUR QUID.
SHLAUDEMAN

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NNN

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